

Internal Audit Update Report April – September 2021

(2021/2022 Internal Audit Plan)

1. Introduction

- 1.1. In accordance with the Public Sector Internal Audit Standards, the Internal Audit Update Report April - September 2021 contains “emerging issues in respect of the whole range of areas to be covered in the annual report.”
- 1.2. Internal Audit is required to form an annual opinion on the overall adequacy and effectiveness of the organisation’s control environment, which includes consideration of any significant risk or governance issues, and control failures which have been identified.

2. Summary of Audit Work to Date

- 2.1. During this period, audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised a mix of risk based auditing, regularity, investigations and the provision of advice to officers. Annex 1 explains the variety of audit work undertaken to support the annual audit opinion.

Assurance Work

- 2.2. A summary of the final reports issued to the end of September 2021, by the audit assurance opinion given is included in **Table 1**. Reports issued to this point are similar to this point in the previous year; it is usual for the majority of the audit plan reports to be issued in the last half of the year.
- 2.3. Details of work in progress, covering draft reports issued for agreement with managers, fieldwork in progress and terms of reference stages, is covered in Table 6. It is anticipated that sufficient work in terms of quantity and coverage will be undertaken to deliver the annual opinion for 2021/22, with the number of final reports issued expected to be approaching the total number issued in 2019/20.
- 2.4. Figures relating to 2019/20 have been included in the table below to assist with comparison; no assurance work had been completed in the first half of 2020/21 as a result of the Covid-19 response.

Table 1: Reports to date by assurance level

Assurance Level	2021/22 (to 30/09/2021)	2020/21 (to 30/09/2020)	2020/21 Full Year	2019/20 (to 30/09/2019)	2019/20 Full Year
Good	0	0	6	0	6
Satisfactory	2	0	4	2	4
Limited	2	0	3	3	11
No Assurance	0	0	0	0	2
Total	4	0	13	5	23

- 2.5. A summary comparison of coverage of the 2021/22 Audit Plan with actuals for the year to 30 September 2021 is shown in Table 2, with comments on variances.

Table 1: Summary Comparison of Audit Plan 2021/22 and Actuals

Area of Plan		Original Plan		Actuals (to 30/09/2021)		Comments on coverage
		Days	%	Days	%	
Chargeable Days		1357		399		Lower than planned due to retirement and delays in appointing temporary staff
Less: Corporate Work		164		48		
Available Audit Days:		1193	100%	351	100	
Corporate Governance and Risk		119	10%	29	8%	
Anti-Fraud and Corruption	Proactive Work	48	4%	11	3%	
	Reactive Investigations	48	4%	10	3%	
Corporate Services		477	40%	129	37%	
People		179	15%	58	16%	
Place		95	8%	32	9%	
Providing Assurance to External Organisations		24	2%	15	4%	Work weighted towards Q1/Q2
Advice & Guidance		84	7%	30	9%	
Other Chargeable Work		119	10%	37	11%	
Total Audit Days		1193	100%	351	100%	

- 2.6. Details of the reports produced to the end of September 2021 are included in Table 3, which includes details of the audit assurance opinion given in each report. Where the opinion given was Limited or No Assurance, a summary of key findings and actions has been provided.

Table 3: Summary of Final Assurance Reports 2021/22 to 30 September 2021

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
Deprivation of Liberty Safeguards	Identified via Audit Plan	Satisfactory	All actions agreed	
B4B Go Live 2 Sign Off (joint work with CWAC and issued using their assurance levels)	Identified via Audit Plan	Reasonable* (CWaC IA opinion)	The audit report provided assurance to Programme Board in relation to the Go Live decision	
B4B Go Live 2 Sign Off – Cutover decision	Identified via Audit Plan	No formal assurance provided	Issues raised in the audit report were included within caveats to be attached to the decision to enter cutover prior to the formal Go Live decision	Progress against the issues raised in this report were monitored and reported upon in the Go Live report detailed above.
Schools Consolidated Report 2020/21	Identified via Audit Plan	Limited	All actions agreed	<p>The report summarises common issues arising from our school audit programme. Areas which require improvement included:</p> <ul style="list-style-type: none"> • Contract management arrangements including Governing Body review of options when contracts end. • Review of procurement thresholds to ensure that they are appropriate to the size of the school. • Review and approval of purchase card transactions.

- 2.7. The assurance levels reported include a combination of opinions at a broad level for the Council as a whole (macro-level opinion) and opinions on individual business processes or activities within a single organisation, department or location (micro-level opinion).
- 2.8. Where control weaknesses are identified, recommended actions are agreed with management to ensure that the control environment is improved to an acceptable level. Through the follow up process, Internal Audit continues to obtain assurance that actions have been implemented, especially those deemed high priority.
- 2.9. It should be noted that Internal Audit's risk-based approach includes focussing on areas where issues are known or expected to exist. Clearly this approach adds value to the organisation, but, by its nature, may also result in lower overall assurance levels.
- 2.10. Where a final report is issued with a "Limited" or "No Assurance" opinion, improvement recommendations will be made. When implemented these will address the identified weaknesses and improve the control environment.
- 2.11. All actions from these audits have been agreed with management and progress on implementation will be monitored through the follow up process. Draft reports are agreed with the appropriate managers, and Final reports are shared with the relevant Executive Director.
- 2.12. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the Annual Governance Statement process.
- 2.13. The Audit Plan is subject to regular review to reflect the current resources available to the team. During the period, a temporary Principal Auditor post was advertised and filled. A temporary Auditor has also recently started with the team. With recruitment to these vacancies, and the return from maternity leave of another member of the team, it is anticipated that the team will complete sufficient direct assurance work supported by assurances gained through other areas of internal audit work to deliver the Annual Internal Audit Opinion for 2021/22.

Schools

- 2.14. The Department for Education requires the Council's Section 151 Officer to sign off an Annual Assurance Statement. That statement confirms:
 - the number of School's Financial Value Standard (SFVS) self-assessment returns received; and
 - that an appropriate audit programme is in place to provide adequate assurance over the standard of financial management, and the regularity and propriety of spending in schools.

- 2.15. The School's Audit Programme for 2021/22 has been agreed by both the Director of Finance and Customer Services (Section 151 Officer) and the Director of Education & 14-19 Skills.
- 2.16. In recent years, thematic reviews have been undertaken at schools targeting specific areas of the SFVS. For the current year, it has been agreed that Internal Audit will undertake a review of the completed SFVS returns at a sample of schools, supported by testing to provide assurance as to the accuracy and validity of the school's self-assessment.
- 2.17. The work is planned to be completed during quarter 4 of the current year and into quarter 1 of 2022/23 to enable the review to consider the latest SFVS returns. This will also provide assurance to the Section 151 Officer and facilitate the signing of the Annual Assurance Statement in May 2022.
- 2.18. Individual reports are produced and issued to schools detailing any areas of weakness identified and any actions required to address these weaknesses and improve the control environment. School reports include an assurance opinion on the arrangements, in line with other audit reports.
- 2.19. Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin" and the "Director's Report".
- 2.20. Findings from all areas inform a consolidated schools report which provides assurance to the Director of Finance and Customer Services (Section 151 Officer) and the Director of Education & 14-19 Skills.

Supporting Corporate Governance

- 2.21. In accordance with Regulation 6 of the Accounts and Audit Regulations 2015 the Council is required, each financial year, to conduct a review of the effectiveness of the system of internal control and publish an Annual Governance Statement (AGS).
- 2.22. During the first half of this financial year, and as previously reported in the 2020/21 Internal Audit Annual Report, Internal Audit has coordinated, on behalf of Management, the production of the Council's AGS for 2020/21.
- 2.23. Audit and Governance Committee approved the Draft AGS 2020/21 at their September meeting, in line with statutory deadlines. The Final AGS 2020/21 will be presented to the November 2021 meeting of Audit and Governance Committee.
- 2.24. A progress update on issues recognised in the AGS 2020/21 is scheduled for the Committee's January meeting. This paper will outline the proposed production process for the 2021/22 AGS.

Counter Fraud and Investigations

- 2.25. Internal Audit has continued to keep abreast of the latest fraud threats particularly in relation Covid-19 related scams, and where appropriate coordinated awareness raising via the Council's social media streams.
- 2.26. Over recent months there has been an increase across the country in attempted mandate fraud and executive impersonation fraud.
- 2.27. Mandate fraud occurs when fraudsters submit bogus requests to change the bank details of suppliers so that genuine payments intended for suppliers are instead paid to the fraudsters account. Executive impersonation fraud occurs when employees, usually in finance or payments teams, receive email communication purporting to be from very senior officers such as the Chief Executive or Finance Director of the organisation. These emails usually request that an urgent payment is made and that the usual checks and controls can be applied retrospectively. They rely on the employee feeling pressured to follow the instructions of a senior manager and are a form of social engineering.
- 2.28. In response to these threats, work has been undertaken in conjunction with the Transactional Service Centre to ensure that appropriate controls are in place to identify and prevent these attempts. This was particularly important given the move to remote working and whilst it is pleasing to note that appropriate controls were in place, awareness raising has taken place to ensure that officers are alert to these potential scams.
- 2.29. Internal Audit has continued to coordinate the investigation of matches identified as part of the 2020/21 National Fraud Initiative (NFI) exercise and ensure that services update the NFI website with the results. Work continues to review the outstanding matches and to date no matters of concern have been identified.
- 2.30. As previously reported, options for the development of a dedicated Counter Fraud resource as part of a wider review of the structure of internal audit had been paused to prioritise other work during the Covid-19 response. It is planned to revisit this during the second half of 2021/22 and further updates will be provided to the Audit and Governance Committee in due course.
- 2.31. In November 2021, the Crown Prosecution Service took the decision to take no further action with regard to investigations into historical land transactions in Middlewich and Crewe. This concludes all police investigations into the matters referred by the Council, following Internal Audit work.

Consultancy and Advice

- 2.32. During the year, Internal Audit has continued to support management with the provision of advice - at the specific request of management. The nature and scope of these engagements are generally aimed at improving

governance, risk management and control and contribute to the overall audit opinion as well as building good relationships across the Council.

- 2.33. In the year so far, advice and guidance has been provided on:
- Suspected scams and attempted frauds.
 - Design and application of controls in new/proposed systems.
 - Interpretation of Finance and Contract Procedure Rules.
- 2.34. By providing this service, internal audit can ensure that processes are supported by appropriate controls to mitigate identified risks associated with the particular activity at the outset of change or development, providing far more valuable input to the service and wider control environment overall.

Grant certifications

- 2.35. Internal Audit is often required to certify statutory returns and grant claims. This may be related to funding provisos or similar. In most cases the work required is either an audit or an assurance statement on a specific programme/project.
- 2.36. In 2021/22 to date, this has included work on the following grants, which were successfully signed off and submitted to the appropriate funding body:

Table 2: Grants Certified during 2021/22 as at 30 September 2021

Grant Certified	Funding Body	Amount
Family Focus (year to date)	MHCLG	£213,600
CWLEP Growth Hub Grant	BEIS	£287,000
CWLEP EU Transition Grant	BEIS	£136,050
CWLEP Supplementary Grant	BEIS	£175,000
CWLEP Peer Network Grant	BEIS	£165,000
Bus Service Operators Grant	DfT	£347,865
Local Transport Capital Block Funding	DfT	£12,147,000
Transport Infrastructure Investment Fund	DfT	£6,855,000
Compliance and Enforcement (Covid)	MHCLG	£158,572
Restart Grant (Covid)	BEIS	£21,294,675
Elena EIB Energy Programme	EIB	EU1,471,321 (£1,261,145)
Total		£43,040,907

- 2.37. It should be noted that the level of work required to complete the sign off of grants is not always proportionate to the value of the grant; grant funding conditions are set by the funding body, and it is this which determines the amount of testing and validation required to inform the sign off.
- 2.38. In addition to the grants detailed above, work has also been undertaken in relation to other Covid-19 related grants. This includes those received during the year and also in relation to the reporting requirements of those received during 2020/21.
- 2.39. Internal Audit has coordinated a grant register that details the nature of each grant and any reporting and sign off details. Lead officers have been identified for each of the grants and work undertaken to ensure that all returns have been completed within deadlines. Work is continuing in this area to ensure that the Council is aware of all requirements and deadlines associated with the many grants that it receives and administers.

Work for Other Bodies

- 2.40. Since 2013, Cheshire East Council has been the host authority for the PATROL (Parking and Traffic Regulations Outside London) Adjudication Joint Committee and Bus Lane Adjudication Joint Committee, and as part of this, we provide an Internal Audit service.
- 2.41. This service was provided remotely during 2020/21. The outcome of the internal audit work is reported to the PATROL Committees directly and does not inform the annual internal audit opinion for Cheshire East Council.
- 2.42. The work was completed, and a report issued during June 2021.

Implementation of Audit Recommendations

- 2.43. Internal Audit continually carries out a range of follow up exercises to ensure recommendations are implemented. This work is done in a number of different ways:
- Major pieces of audit work, such as the AGS have detailed action plans which are monitored and reported separately to the Committee.
 - Investigations – follow up work is usually dependent on both the nature of the investigation and any recommendations made e.g. a follow up audit may be done at the request of management.
 - Formal assurance audits; recommendations are monitored in line with our follow up process.
- 2.44. Audits with 'limited' or 'no' assurance are subject to more detailed review. In addition, key systems (e.g. Payroll, Accounts Payable) are audited on a regular, cyclical basis with recommendations followed up as part of the work.

- 2.45. The Committee have previously been advised of the work undertaken by Internal Audit, supported by senior management to raise the profile of audit recommendations. This has included the agreement of “SMART” recommendations and the inclusion of performance measures in the Corporate Scorecard. There has been a “pause” in the follow up of actions, created by the move away from traditional internal audit work to support the organisation’s response to Covid, but as our assurance work builds back up, we will ensure that managers and the Corporate Leadership Team have regular updates on the position of recommended actions.
- 2.46. The implementation of agreed recommendations for reports issued in 2019/20, 2020/21 and the current year to date is detailed in the table below.

Table 5: Implementation of agreed recommendations as at 30 September 2021

On time	After the agreed date	Total implemented	In progress, or overdue	Agreed actions subsequently not implemented
2019/20				
75%	25%	100%	0%	0%
2020/21				
100%	0%	100%	0%	0%
2021/22				
100%	0%	100%	0%	0%

- 2.47. The figures for 2018/19 and 2019/20 have been updated to take into account actions implemented in subsequent years and may therefore be different to the figures previously reported to the Committee.
- 2.48. These high implementation figures over several years have been achieved as a result of significant effort by the Internal Audit team in carrying out follow ups with managers along with support from senior managers in raising the profile of audit actions.
- 2.49. In agreeing implementation dates, managers are encouraged to be realistic with regards to when actions can be completed whilst ensuring that issues are addressed in a timely manner. It is pleasing to report that senior management have continued to support Internal Audit by challenging their service managers around implementation of actions.
- 2.50. The timely implementation of audit recommendations is a good indicator of both the effectiveness of Internal Audit in securing action and the Council’s commitment and capacity to improve.

Ongoing Work

- 2.51. The following audits commenced during the period, with work ongoing at the time of reporting:

Table 6: Ongoing Internal Audit Assignments as at 30 September 2021

Audit	Scope of Review	Status
Occupational Therapy	To review the processes and controls in place to ensure that the Occupational Therapy service meets legislative requirements and the standards set by the Royal College of Occupational Therapists	Draft Report
People Helping People	To review the governance structure in place to manage the People Helping People scheme introduced in response to the covid-19 pandemic.	Fieldwork underway
Section 106/CIL	To review the processes and controls around the requests, collection, management, implementation and expenditure of S106 and CIL schemes. It is likely that separate reports will be issued.	Fieldwork underway
Journey First	To review the systems, processes and controls in place to ensure that the funding received has been utilised and delivered in line with the original grant application and conditions of award.	Fieldwork underway
Contract Awards	To review the impact of the response to the covid-19 pandemic on the controls in place to manage the award of contracts.	Agreeing Terms of Reference
Purchase Cards	To review the impact of remote working and the response to the covid-19 pandemic on controls in place around the use of purchase cards.	Agreeing Terms of Reference
ICT Assurance Mapping	To document the various controls and testing undertaken to ensure the security of the ICT systems. Whilst not producing an assurance report it will allow the identification of any gaps and targeting of	Agreeing scope

	detailed testing of high risk areas in future.	
Declaration of Interests	The review the processes and controls in place to manage declarations of interest from both officers and members.	Agreeing Terms of Reference
High Needs Funding	Review of the processes and controls in place to manage the high needs block of the dedicated schools grant.	Agreeing Terms of Reference

Table 7: Planned work not yet started

Audit	Scope of Review
Key Financial Systems	This will involve several reviews which will be agreed during quarter 3 and undertaken during quarter 4. It will cover key systems such as Council Tax, Non Domestic Rates, Creditors, Debtors etc.
Fostering	The focus of the review will be discussed with the Head of Service to identify the key risks and ensure that it adds maximum value.
Expenses	To understand the impact of remote working and the subsequent return to the office on the processes and controls in place for the payment of expenses to both officers and members.
CWLEP	Completion of the internal audit plan for the Local Enterprise Partnership. This does not directly inform the Annual internal audit opinion and is undertaken as Cheshire East are the accountable body.
Management of Commissioned Services (Adults and Children's Social Care)	The focus of the review will be discussed with the Head of Service to identify the key risks and ensure that it adds maximum value.
ERP Replacement – post implementation reviews	Post implementation assurance will be required, however, the timing of this will be agreed with the relevant services.

2.52. It is also possible that other, unplanned reviews may be undertaken at the request of management.

3. Internal Audit Performance

3.1. Internal Audit's performance is measured against a number of performance indicators which are detailed in Table 7.

- 3.2. The performance relating to the implementation of recommendations is detailed earlier in this report.

Table 8: Performance Indicators to date

Performance Indicator	2021/22 Actual	2021/22 Target	2020/21 Actual	Comments on 2021/22 Actuals
% of Audits completed to user's satisfaction	83%	92%	100%	Above target
% of significant recommendations agreed	100%	90%	100%	Above target
Chargeable Time (Assurance Work)	82%	80%	84%	In line with previous year
Draft report produced promptly (per Client Satisfaction Form)	93%	95%	100%	Reduced management resource impacts on review process

4. Compliance with the Public Sector Internal Audit Standards

- 4.1. Regulation 6 of the Accounts and Audit Regulations 2015 requires relevant bodies to conduct an annual review of the effectiveness of its internal audit and for a committee of the body to consider the findings.
- 4.2. This review is carried out by self-assessing compliance with the Public Sector Internal Audit Standards (PSIAS) which were updated with effect from 1 April 2017. The PSIAS require Internal Audit to have in place a quality assurance and improvement programme which must include both internal and external assessments.
- 4.3. As previously reported to the Committee, the self assessment was delayed due to the impact of the Covid-19 pandemic and is scheduled for completion within Quarter 3.